

PREPARING A BUSINESS PLAN

By: Eric Hanson, Regional Development Officer, Montana Department of Commerce and
Cliff Bennett, Director, Kalispell Small Business Development Center

Preparation of a well thought out business plan should be one of the primary goals of any and every business, existing or start-up. The formal business plan process sometimes seems intimidating, but is actually quite straightforward. Format is far less important than content.

Your business plan should make sense to you, and the finished project is an operating tool to help manage your business and enable you to achieve greater success.

If your business plan is being prepared as part of a request for financing, it is **crucial** to keep your focus on explaining how income is derived (billable hours, units sold at certain prices, etc). The theme of your narrative portion must be centered upon setting the stage for your financial projections.

Planning is very important if a business is to survive. By taking an objective look at your business you can identify areas of weakness and strength. Preparation of a comprehensive plan will not guarantee success in raising funds or mobilizing support. However, lack of a good solid plan will, almost certainly, hinder growth and/or ensure failure.

The business plan is only useful if you use it. Ninety percent of new businesses fail in the first two years. Failure is often attributed to a lack of planning. To enhance your success, use your plan!

A formal business plan serves four critical functions:

- Helps management or an entrepreneur to clarify, focus, and research business or project development needs.
- Provides a considered and logical framework which a business can develop and pursue business strategies over time.
- Serves as a basis for discussion and communication with third parties such as shareholders, banks, investors, and other interested parties.
- Offers a benchmark against which actual performance can be measured and reviewed.

A business plan is **not** homework assigned by a lender or a potential investor. There are no software programs or magic templates that will swiftly and effortlessly produce a strong, complete business plan. A business plan should be a realistic view of the expectations and long-term objectives for an established business or new venture. It provides the framework within which it must operate and, ultimately, succeed or fail.

It is important to tailor a plan's contents to suit the particular company's circumstances, needs, goals, and direction. Please see outline below.

Outline:

II. Business Plan Components

(Cover Page)

- A. Executive Summary
- B. History and Experience
- C. The Product/Service
- D. The Market
- E. The Marketing Plan
- F. The Competition
- G. Operations
- H. The Management Team
- I. Personnel
- II. Financial Data
- III. Supporting Documentation
- IV. Summary
- V. Resources

REMEMBER: Write your business plan in the 3rd person – avoid “I, We” and instead use company name or “the company,” etc. Also remember to insert page numbers on the document

II. Business Plan Components

Cover Page

Company Name

Address

Name of Owners

(Insert business logo if any)

Option to insert Statement of Confidentiality

SAMPLE

This document is confidential and has been made available to the individual to whom it is addressed strictly on the understanding that its contents will not be disclosed or discussed with any third parties except for the individual's own professional advisers. Prospective investors are advised to verify all material facts and to take advice from a professional adviser before entering into any commitments. This plan is strictly for information only and does not constitute a prospectus or an invitation to subscribe for shares. Projections in the plan have been compiled by the promoters for illustrative purposes and do not constitute profit forecasts. The eventual outcome may be more or less favorable than that portrayed

The Executive Summary

Write this summary once your plan is completed.

The first page of your business plan should be a persuasive summary that will entice a reader to take the plan seriously and read on. The Executive Summary should be the first item in the table of contents, and should not exceed two pages in length.

The summary should include:

- A brief description of the company's history
- The company's objectives
- A brief description of the company's products or services
- The market the business will compete in
- A persuasive statement as to why and how the business will succeed, discussing the business's competitive advantage
- Projected growth for the company and the market
- A brief description of the key management team
- A description of funding requirements, including a time-line and how the funds will be used

Hit the highlights and key issues. Avoid a lot of detail – focus on matters of strategic importance to the business. Address the needs and interest of the reader.

History and Experience

Use this section to summarize achievements and performance (financial, sales, technical etc.) to date. Review the history of the business (or the origins of the idea if a start-up). For a start-up, this section could be covered in one-two pages. You may allow more pages for an established business and relegate detailed material to appendices.

Start by introducing the owner(s) of the business and then describe what the business does now. Explain in broad terms how business evolved, and why was it started?

If your company is a new company, discuss the origins of your business idea. Call on your experience, your past observations, the “why” of your idea. Be positive, yet insightful. Remember – you are setting the stage for further detailed explanations, so be brief and concise.

The Product or Service

It is important for the reader to thoroughly understand your product offering or the services you currently provide or plan on providing. Explain this section in layman's terms to avoid confusion. Do not overwhelm the reader with technical explanations or industry jargon that he or she will not be familiar with.

Discuss the competitive advantage your product or service has over the competition. Or, if you are entering a new market, you should answer why there is a need.

If appropriate, discuss any patents, copyrights and trademarks the company currently owns or has recently applied for and discuss any confidential and non-disclosure protection the company has secured.

Discuss any barriers that you face in bringing the product to market, such as government regulations, competing products, high product development costs, the need for manufacturing materials, etc.

Areas that should be covered in this section include:

- Is your product or service already on the market or is it still in the research and development stage?
- If you are still in the development stage, what is the roll out strategy or timeline to bring the product to market?
- What makes your product or service unique? What competitive advantage does the product or service have over its competition?
- Can you price the product or service competitively and still maintain a healthy profit margin?

If your business is a service business:

- Tell what your service is, why you are able to provide it, how it is provided, who will be doing the work, and where the service will be performed.
- What makes your service unique and how is your business different from others in the industry?
- What are the features/advantages that will entice customers to buy from you (i.e., convenience, service, performance)?

The Market

Lenders and investors look for management teams with a thorough knowledge of their target market. If you are launching a new product, include your marketing research data. If you have existing customers, provide an analysis of who your customers are, their purchasing habits, their buying cycle.

This section of the plan is extremely important, because if there is no need or desire for your product or service there won't be any customers. If a business has no customers, there is no business.

This section of the plan should include:

- A general description of your market
- The niche you plan on capitalizing on and why

- The size of the niche market. Include supporting documentation
- A statement and supporting documentation as to why you believe there is a need for your product or offering by this market
- What percentage of the market do you project you can capture?
- What is the growth potential of the market? Include supporting documentation
- Will your share of the market increase or decrease as the market grows?
- How will you satisfy the growth of the market?
- How will you price your goods or services in the growing competitive market?

The Marketing Strategy

Once you have identified who your market is, you'll need to explain your strategy for reaching the market and distributing your product or service. Potential investors will look at this section carefully to make sure there is a viable method to reach the target market identified at a price point that makes sense.

Analyze your competitors' marketing strategies to learn how they reach the market. If their strategy is working, consider adopting a similar plan. If there is room for improvement -- work on creating an innovative plan that will position your product or service in the minds of your potential customers. The most effective marketing strategies typically integrate multiple mediums or promotional strategies to reach the market. The following are some promotional options to consider.

- TV
- Radio
- Print
- Web
- Direct mail
- Trade shows
- Public relations
- Promotional materials
- Telephone sales
- One-on-one sales
- Strategic alliances

If you have current samples of marketing materials or strategies that have proved successful, make sure you include them with your plan.

Developing an innovative marketing plan is critical to your company's success. Look at creating strategies that will put your product or service in front of potential customers. Spend time developing this section.

Once you have identified how you will reach the market, discuss in detail your strategy for distributing the product or service to your customers. Will you mail order, personally deliver, hire sales reps, contract with distributors or resellers, etc.?

The Competition

Understanding your competition's strengths and weaknesses is critical for establishing your products or services competitive advantage. If you find a competitor is struggling, you need to know why, so you don't make the same mistake. If your competitors are highly successful, you'll want to identify why. You'll also want to explain why there is room for another player in the market.

Specific areas to address in this section are:

1. Identify your closest competitors. Where are they located? What are their revenues? How long have they been in business?
2. Define their target market.
3. What percentage of the market do they currently have?
4. How do your operations differ from your competition? What do they do well? Where is there room for improvement?
5. In what ways is your business superior to the competition?
6. How is their business doing? Is it growing? Is it scaling back?
7. How are their operations similar to yours and how do they differ?
8. Are there certain areas of the business where the competition surpasses you? If so, what are those areas and how do you plan on compensating?

Analyzing your competitors should be an ongoing practice. Knowing your competition will allow you to become more motivated to succeed, efficient and effective in the marketplace.

Operations

Now that you have had an opportunity to really sell your idea, the next question - is how will you implement the idea. What resources and processes are necessary to get the product to market? This section of the plan should describe the manufacturing, R&D, purchasing, staffing, equipment and facilities required for your business.

You'll want to provide a roll out strategy as to when these requirements need to be purchased and implemented. Your financials should reflect your roll out plan.

In addition, describe the vendors you will need to build the business. Do you have current relationships or do you need to establish new ones? Who will you choose and why?

Research & Development (if applicable to your company)

One-two pages should suffice

- Keep technical details to the minimum and explain unusual terms. Use simple drawings or flow diagrams to help describe any complex issues.
- Introduce the key technology trends/developments (what's new/what's coming) within your industry or product area. Explain how are you responding to them.
- If R&D is relevant to the business, describe progress to date, plans, resources, and highlight any technological advances or achievements.

Summarize existing/planned patents and describe the ownership status of all intellectual property rights (including trademarks, copyrights)

Remember – this is where you set the stage for supporting your financial projections. Either here, or in the attachments section you should include some sort of pricing structure explaining billable hours, job bidding, unit prices, etc.

The Management Team

The experience and quality of the management team is the most important aspect evaluated when investing in a company. Lenders and investors must feel confident that the management team knows its market, product and has the ability to implement the plan. In essence, your plan must communicate management's capabilities in obtaining the objectives outlined in the plan.

If your team lacks in a critical area, identify how you plan on compensating for the void. Whether it is additional training required or additional management staff needed show that you know the problem exists, and provide your options for solutions.

When preparing this section of the business plan you should address the following five areas:

1. Personal history of the principals:
 - a. Business background of the principals
 - b. Past experience -- tracking successes, responsibilities and capabilities
 - c. Educational background (formal and informal)
 - d. Personal data: age, current address, past addresses, interests, education, special abilities, reasons for entering into a business
 - e. Personal financial statement with supporting documentation
2. Work experience:
 - a. Direct operational and managerial experience in this type of business
 - b. Indirect managerial experiences
3. Duties and responsibilities:
 - a. Who will do what and why

- b. Organizational chart with chain of command and listing of duties
 - c. Who is responsible for the final decisions?
- 4. Salaries and benefits:
 - a. A simple statement of what management will be paid by position
 - b. Listing of bonuses in realistic terms
 - c. Benefits (medical, life insurance, disability...)
- 5. Resources available to your business (names and contact numbers):
 - a. Insurance broker(s)
 - b. Lawyer
 - c. Accountant
 - d. Consulting group(s)
 - e. Small Business Association
 - f. Local business information centers
 - g. Chambers of Commerce
 - h. Local colleges and universities
 - i. Federal, state, and local agencies
 - j. Board of Directors
 - k. World Wide Web (various search engines)
 - l. Banker

Personnel

The success of a business can often be measured by its employees. Seventy percent of consumers will go elsewhere if they don't receive prompt and courteous service. You must consider the following questions in completing this section of the business plan:

1. What are your current personnel needs (full or part-time)? How many employees do you envision in the near future and then in the next three to five years?
2. What skills must your employees have? What will their job descriptions be?
3. Are the people you need readily available and how will you attract them?
4. Will you be paying salaries or hourly wages?
5. Will there be benefits? If so, what will they be and at what cost?
6. Will you pay overtime?

IV. Financial Data

At the heart of any business operation is the accounting system. It is important to have a certified public accountant establish your accounting system before the start of business. At

times there is a tendency to do it yourself. Remember that an incredible number of businesses fail due to managerial inefficiencies. Leave it to the trained professional to help you in the area of accounting and legal matters. If your business can't afford a public accountant to establish your books, then you are undercapitalized. You need to secure additional resources before starting. Using a software program such as QuickBooks, Peachtree, or Business Pro is helpful, but only if the number and categories are inputted correctly.

One of the first steps to having a profitable business is to establish a bookkeeping system, which provides you with data in the following four areas:

- Balance Sheet - indicates what the cash position of the business is and what the owner's equity is at a given point (the balance sheet will show assets, liabilities and retained earnings).
- Break-Even Analysis - is based on the income statement and cash flow. All businesses should perform this analysis without exceptions. A break-even analysis shows the volume of revenue from sales that are needed to balance the fixed and variable expenses.
- Income Statement - also called the profit and loss statement, is used to indicate how well the company is managing its cash, by subtracting disbursements from receipts.
- Cash Flow - this projects all cash receipts and disbursements. Cash flow is critical to the survival of any business.

If the goal of your business plan is to obtain financing, you will be required to generate the following:

1. Financial Statements Needed

- A. The most current balance sheet, income statement, and statement of cash flow
- B. In some cases the businesses last six months income statements and balance sheets are requested

2. Historical Statements Needed

- A. Three years historical, year-end balance sheet and income statements
- B. Current and like previous year interim, income statements if the business plan is being prepared more than 60 days after the fiscal year end.

3. Projected Financials Needed

- A. Balance Sheet consistent with the interim income statements
- B. Three years projected income statements on a year-end basis
- C. Three years projected balance sheets on a year-end basis
- D. Monthly cash flow statement for the first year or additional years (if additional years are necessary to produce a positive cash flow).

- E. Footnotes clarifying any assumptions with the projection numbers. This can include key figures or extreme changes on the financials. For example if gross profits change significantly a footnote should be included to tell the reader why a significant change.

The most important financial document, however, is a detailed, succinct, supportable description of **exactly** what makes up your financing request. This is the most underestimated, and most often overlooked document by potential borrowers.

V. Supporting Documentation

You must include any documents that lend support to statements made in the body of your company's business plan. The following is a list of some items for your consideration. Please be aware that this list is not complete and may vary depending on the stage of development of your business.

1. Resumes
2. Credit information, include in Appendix: Personal Financial Statement, personal tax returns, business tax returns, YTD business financial statements.
3. Quotes or Estimates – equipment by make, model #, details, details, details!
4. Letters of Intent from prospective customers and suppliers/vendors.
5. Letters of Support from credible people who know you
6. Leases or Buy/Sell Agreements
7. Legal Documents relevant to the business
8. Census/Demographic data
9. Anything else that you feel increases credibility or supports your plan.

VI. Summary

The completed business plan should be bound. For internal purposes three-ring binders work well. Additions and changes can easily be placed in the binders. For the business plan that is to be circulated to a lender and/or investor, many types of appropriate folders and binders can be purchased at office supply stores.

Once the business plan is completed, it should become an operational tool to measure the success of the business. This plan should be updated as milestones are reached. Often companies will spend enormous time, energy and financial resources to complete this

arduous task just for the purpose of obtaining additional capital. The companies that shelve the business plan after its completion and presentation to lenders lose out on the real value of this useful tool in the growth and development of small and large businesses. A business plan is a live document that is constantly changing with the market place and culture of your business.

Tip: *When finished get someone to read a near-final draft to check that the plan makes good business sense, reads well, and is clear. Ideally, that "someone" should be a detached, independent person involved in business with experience of your industry and/or business planning. Your local Small Business Development Center, SCORE Chapter (Service Corps of Retired Executives), or someone with experience in your industry are all great resources for this assistance.*

END OF DOCUMENT